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Message Text

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16
ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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USMISSION OECD PARIS
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AMEMBASSY OSLO
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TAGS: ECON, ETRD, EEWT, GATT, COMECON, XH, FI
SUBJECT: FINNISH IMPORT RESTRICTIONS

REF: (A) STATE 062475 (B) HELSINKI 626 (C) OECD
PARIS 09416 (NOTAL)

1. SUMMARY: TERMS OF TRADE DETERIORATION WERE NOT
MAIN SOURCE OF FINLAND'S CURRENT ACCOUNT PROBLEM.
ADVERSE BALANCE OF TRADE WITH CEMA (COMECON) COUNTRIES
IS MORE THAN WITH EEC/EFTA COMBINED. DEVALUATION
WAS RULED OUT BECAUSE OF PREDICTED INEFFECTIVENESS
NOW BUT MAY BE USED LATER.
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2. SEVERAL QUESTIONS REF A WERE ANSWERED BY
REF B. ADDITIONAL INFORMATION AND COMMENTS, KEYED
TO QUESTION NUMBERS IN PARA 2, REF A, FOLLOW.
THESE ALSO PROVIDE INFORMATION RESPONSIVE
ISSUES RAISED FOR DISCUSSION BY OECD SECRETARIAT
(REF C).

3. QUESTIONS 1 AND 6: (IN ADDITION TO COMMENTS
PARA 4 AND 5, REF B ON OIL PRICES). TOTAL EXPORT
RECEIPTS DID NOT INCREASE AS FAST AS IMPORT COSTS,
WITH BOTH VOLUME AND PRICE RATIOS PLAYING A ROLE.
IN 9174 IMPORTS INCREASED 10 PERCENT IN VOLUME AND
54.7 PERCENT IN VALUE OVER THE PREVIOUS YEAR; FOR
EXPORTS, INCREASES WERE 5 PERCENT AND 41.6 PERCENT.
TERMS OF TRADE (1969 EQUAL 100) WERE, ACCORDING TO
BANK OF FINLAND, 99 IN QOUE AND 98 IN 1974. QUARTERLY
TERMS OF TADE IN 1974 WERE: FIRST QUARTER -93;
SECOND -96; THIRD - 101; FOURTH -104. EXPORT
VOLUME WAS HOWEVER DOWN -- THE INDEX BEING 131 IN
THE FIRST TWO QUARTERS, 119 IN THIRD AND 125 IN
FOURTH (1969EQUAL100).

4. QUESTIONS 2 AND 3. NET 1974 FINNISH DEFICIT
FIGURES FOR TRADE WITH MAJOR GROUPS IN MILLIONS OF
FMK ARE: "EAST BLOC" (COMECON MEMBERS AND ASSOCIATES
AND PRC -- 2194.1; EFTA -- 1414.6; EEC -- 446.1;
LDC -- 611.2; US/CANADA/JAPAN -- 864.3; "OTHERS" --
SURPLUS OF 541.0 .

5. QUESTION 4: FINNISH TRADE STATISTICS ARE USUALLY
GIVEN AS SHOWN PARA 4 EXCEPT OCCASIONALLY
OECD MEMBER GROUPING IS ALSO USED WHERE THERE IS A
REASON. BANK OF FINLAND DISTINGUISHES BETWEEN
BILATERAL (CLEARING-ACCOUNT) AND MULTILATERAL
(HARD CURRENCY) TRADE. TRADE WITH POLAND AND
CZECHOSLOVAKIA IS INCLUDED IN LATTER, AS THESE
ACCOUNTS ARE SETTLED IN DOLLARS.

6. QUESTION 5: THE GOVERNMENT'S INTENTION APPEARS
TO BE NON-DISCRIMINATORY IN TREATMENT OF IMPORTS
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REGARDLESS OF SOURCE, BUT FOR THE PRESENT AT LEAST,
DEFICITS IN TRADE WITH USSR ARE EASIER FOR FINNS
TO LIVE WITH. AS REPORTED PREVIOUSLY (PARA 5, REF B)
NOT ONLY HAS THE USSR TOLD FINLAND IT WOULD ALLOW
THE SWING CREDIT IN USSR FAVOR TO EXCEED THE AGREED
LIMITS FOR YEAR OR SO TO GIVE FINLAND TIME TO
INCREASE ESPORTS, IN FACT NON-TRADE PAYMENTS AND
TRADE PAYMENTS IN ADVANCE (FOR SHIPS) MADE BY USSR

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TO FINLAND HAVE KEPT THE CLEARING ACCOUNT ROUGHLY
IN BALANCE. FINNS BELIEVE THAT CLEARING-ACCOUNT
ARRANGEMENT WITH THE USSR HAS BEEN MAJOR HELP IN
FINANCING OIL INCREASED TRADE DEFICIT (TWO-THIRDS
OF ITS OIL COMES FROM THE USSR). SINCE FINLAND
IS NOT NOW IN A POSITION TO PAY HARD CASH FOR ALL
OF ITS OIL IMPORTS, AT PRESENT HIGH PRICES, AND
CONSIDERING THE CURRENT FINANCIAL STRINGENCY (ABOUT
ONE-THIRD OF OIL MUST BE PURCHASED FOR HARD
CURRENCY), THE INTEREST-FREE LOAN ASPECT OF THE
CLEARING ACCOUNT ARRANGEMENT HAS BEEN USEFUL TO
FINLAND.HOWEVER, AT LEAST THE BANK OF FINLAND IS
CONCERNED ABOUT THE EXCESS DOMESTIC PURCHASING POWER
WHICH WILL BE GENERATED BY THE INCREASED PRODUCTION
OF GOODS FOR EXPORT TO USSR WITHIN NEXT FEW YEARS.

7. QUESTION 4: JANUARY-FEBRUARY 1975 FIGURES ARE
INCOMPLETE, BUT THE CENTRAL ASSOCIATION OF FORESTRY
INDUSTRY ESTIMATES PULP PRODUCTION HAS DECLINED SOME
15 PERCENT FROM THE 1974 AVERAGE, AND MAJOR SECTIONS
OF THE PAPER AND BOARD SEGMENTS OF THE INDUSTRY WILL
HAVE WEEKS-LONG SHUTDOWNS IN 1975 DUE TO EXCESSIVE
INVENTORIES AND SLACK DEMAND. FINAL 1974 FIGURES
SHOW A 6.9 PERCENT DECLINE, COMPARED TO 1973, IN
WOOD PROCESSING INDUSTRY PRODUCTS (SITC) CATEGORY
63), BUT A 44 PERCENT DECLINE IN DECEMBER 1974
COMPARED TO DECEMBER 1973. THE CENTRAL ASOCIATION
THINKS THE DECLINE WILL CONTINUE UNTIL MID-YEAR.

8. QUESTION 8: THE INTERNATION VALUE OF THE
FINNMARK HAS BEEN A SUBJECT OF PUBLIC AND INTA-
GOVERNMENTAL DISCUSSION FOR SOME TIME, WITH BOTH
REVALUATION AND DEVALUATION BEING ADVOCATED AND CON-
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SIDERED, FORMER LAST SUMMER AND FALL AND LATTER IN
LAST FEW MONTHS. ISSUE HAS A GREAT DEAL OF POLITICAL
CONTENT, WITH THE LABOR ORGANIZATION ADAMANTLY OPPOSED
TO DEVALUATION. BANK OF FINLAND OFFICIALS (IN-
CLUDING CHIEF OF FOREIGN EXCHANGE POLICY DEPARTMENT)
HAVE REMARKED BOTH PRIVATELY AND PUBLICLY SEVERAL
TIMES IN RECENT MONTHS THAT BANK CONSIDERS THAT
DEVALUATION WOULD HAVE BEEN AND WOULD BE UNPRODUCTIVE
DUE TO FINNISH INDUSTRY'S RELATIVELY HEAVY DEPENDENCE
ON IMPORTED COMPONENTS AND RAW MATERIALS, AND LACK
OF IMMEDIATE OPPORTUNITY TO EXPAND EXPORT CAPACITY
IN FEW INDUSTRIAL SECTORS WHERE FOREIGN DEMAND IS
AT PRESENT STRONG, AND FACT THAT IN GENERAL EXPORT
DEMAND FOR FINNISH PRODUCTS IS NOW WEAK. THE
IMPORT RESTRICTIONS IN THE "NINE-POINT" PROGRAM ARE

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DESIGNED MAINLY TO HOLD DOWN FINNISH TRADE AND
PAYMENTS DEFICITS UNTIL RECENT AND
ADDITIONAL INVESTMENTS IN THE EXPORT SECTOR
CAN BECOME PRODUCTIVE(AND UNTIL GOVERNMENT CAN
THINK OF MORE EFFECTIVE MEASURES). A DEVALUATION
INTENDED TO STIMULATE EXPORTS COULD LOOK MORE
ATTRACTIVE LATER, IF AND WHEN THE NEW ECONOMIC
PROGRAM BEGINS TO WORK. POLITICAL AND SOCIAL
CONSIREDATIONS AS WELL AS ECONOMIC ONES, ARGUES
AGAINST DEVALUATION NOW, WHICH IN THE FINNISH VIEW
WOULD HAVE LED TO HIGHER DOMESTIC PRICES, INCREASED
THE COST OF SERVICING THE FOREIGN DEBT AND YET
NOT HAVE INCREASED EXPORTS, GIVEN THE RELATIVELY
SLACK DEMAND AT PRESENT FOR MAIN FINNISH EXPORT LINES.
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